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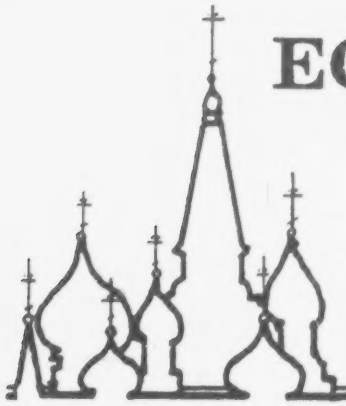

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

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ECONOMIC RESULTS FOR THE FIRST HALF OF 1989

Product	1st Half 1989	1989 as a % of 1988
Electricity (billion kw hrs)	868	101%
Petroleum (million tons)	304	97
Natural Gas (billion meters³)	399	104
Coal (million tons)	386	98
Steel (million tons)	81.1	99.1
Fertilizer (million tons)	18.4	98
Metal-cutting tools (thousand units)	11.9	108
Robots	*	*
Computer tech. (billion rubles)	3.7	115
Tractors (thusand units)	278	98
Paper (million tons)	3.2	100
Cement (million tons)	70.5	101
Meat (million tons)	6.2	100.3
Margarine (thousand tons)	808	95
Watches (million units)	*	*
Radios (million units)	4.2	104
TV sets (million units)	4.9	103
Automobiles (thousand units)	602	91

* not published

LIVESTOCK HERDS
(Million tons)

Herd	As of 6/1/88	As of 6/1/89	1989 as a % of 1988
Cattle	97.5	95.8	98.2%
Cows	28.8	28.6	99.3
Hogs	58.4	59.3	101.5
Sheep Goats	144.7	142.3	98.3
Chickens	789.8	789.2	99.9

MORE BAD NEWS FOR THE FIRST HALF OF 1989

If Gorbachev was hoping that there might be some improvement in economic development in 1989, he certainly cannot find much encouragement in the statistics for the first half of the year. While the overall gross indices do seem to show some continued growth, the individual indices reflect serious problems. For example, while the Soviets report industrial production is up by 2.7%, in specific industries the results appear to be much less favorable, particularly in those sectors affecting consumers. Moreover, because the statistical report for the first six months contains more information than has been the case in previous years, the Soviets are now acknowledging problems that previously they kept secret. The overall impact, then, is quite a depressing one.

In the preamble of the six month report, the statistical authorities acknowledge that "the financial situation of the country and money circulation continues to be in

furniture, dishes, cosmetics, soap, salt, fish, cheese, tea, and even as they explain, "in different regions of the country, there are serious shortcomings in supplying the population with bread and bread products." There are also shortages of potatoes and vegetables. In particular, sales of potatoes have fallen 12% in the first six months of 1989 when compared to the same period in 1988.

On top of everything else, housing construction has also declined and reportedly is far below schedule for the year.

Another disturbing development included in the report is the announcement that the crime rate increased 32% in the first half of 1989. Another innovation in the statistical reporting by the Soviet authorities is that they now publish a figure on traffic deaths. For the first half of 1989, there were approximately 21, 500 lives lost as a result of highway accidents.

The only good news seems to be that VCR production inside the Soviet Union is up 81% and that many of the items in short supply, such as soap, laundry detergent and medicines are being imported in substantial quantities.

Industry

The industrial output figures also give Gorbachev some cause for concern. Electrical energy output is up only 1%, while oil production is down 3% and coal output is down 2%. Natural gas production rose 4%, which is good, but substantially below the typical increase of a few years ago. Steel output is down, as are many petrochemical products. The output of automobiles is down 9%.

Gorbachev also has to worry that his campaign to curb excess construction seems to be failing. The amount of uncompleted construction increased 13% over last year's figure, when there was already open criticism of too much undertaken and not enough completed.

There has also been an increase in pollution, including an oil spill which has affected the resort area of Sochi in the Russian republic.

Foreign Trade

Finally, the Soviets also provide some preliminary information about the foreign trade sector. What is significant is that they report serious problems with their foreign trade balance not only with the capitalist countries, but with the socialist bloc as well. Indeed, there is a report that Soviet visitors to Hungary have been sharply restricted in the number of rubles they can convert into Hungarian florints.

The Soviets also report that they imported 38 million tons of grain in the first 6 months of this year. That is 19% higher than last year.

They also report that there were 680 joint ventures registered with the Ministry of Finance.

Conclusion

While certainly not all industries are showing a drop in production, the results in no way can be considered encouraging. As we look to the report for the third quarter, production will undoubtedly be affected by the massive strikes which occurred during the month of July.

If allowance is made for inflation, then there is reason to wonder if indeed there has been any increase in real output. These clearly are difficult times for those responsible for economic growth inside the Soviet Union.

LIVESTOCK HERDS

Except for the swine herd, the livestock herds are all down. That is a bit unusual because in the past few years, the chicken flocks have appeared to increase continuously. Now even the size of the chicken flocks seems to be falling.

CORPORATE SPONSOR SEMINARS FOR 1989

The Russian Research Center has organized three corporate seminars for this fall. The first will be held on Friday, September 15, 1989. It will be held at 1737 Cambridge Street in the Russian Research Center itself. The topic is "The Major Non-Slavic Nationalities of the Soviet Union," and will be sponsored with the support of the John M. Olin Foundation, as part of the regular corporate sponsor series. A copy of the program and a registration form are enclosed with this newsletter.

Later in the fall, there will be another John M. Olin supported seminar. This will be our annual conference intended to provide an orientation for journalists. This will be held as usual at the Harvard Faculty Club and is scheduled for Monday, November 6, 1989. We believe that Dr. Nikolai Shmelev of the Institute of USA and Canada will be joining us to discuss economic reform. This is subject to final confirmation, of course, but the odds are 50-50 that he will be able to join us.We have not received confirmation from all the invited speakers, however, we have received confirmation from Philip Taubman and Felicity Barringer, formerly the Moscow bureau chief and a reporter for The New York Times. The topics under discussion will include the current state of arms control, Soviet foreign policy, the political situation internally and externally, and a look at the Soviet economy.

Finally, an innovation for the Center will be a one-day conference on joint ventures, sponsored jointly with the Washington law firm of Heron, Burchette, Ruckert & Rothwell. This conference will be held on Monday, November 13, at the Harvard Faculty Club. This will be the first instance in which the Russian Research Center has jointly sponsored a conference of this sort and we expect to have speakers from the Soviet Union, as well as those actively engaged in joint ventures in Western Europe.

Application forms for all three conferences are enclosed in this mailing.

FOREIGN EXCHANGE RATES
June 7, 1989 to July 12, 1989
Quoted in rubles

	June 7	June 28	July 12
£100 Sterling	102.62	99.85	102.18
100 Aust. Sch.	4.69	4.69	4.78
100 D. Marks	33.07	32.97	33.68
100 D. Guilders	29.30	29.28	29.87
100 U.S. Dollars	64.07	64.30	62.88
100 Fr. Francs	9.72	9.71	9.92
1,000 Jap. ¥	4.56	4.59	4.52
10,000 It. Lire	4.55	4.55	4.64
100 Swiss Frs.	38.27	38.39	39.06
100 Nor. Kroner	9.09	9.05	9.13
1,000 Bel. Frs.	15.76	15.77	16.08
100 Sw. Kronor	9.75	9.73	9.81

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ANDREI SAKHAROV AND YELENA BONNER VISIT THE RUSSIAN RESEARCH CENTER

On August 3, the renowned dissidents Andrei Sakharov and his wife Yelena Bonner addressed officials of Harvard University and the Fellows and guests of the Russian Research Center at a luncheon at the President 's House. Speaking in Russian and assisted by an interpreter, Sakharov expanded on a number of issues of critical importance to the leadership of the Soviet Union today and warned that the failure to resolve many of these problems could result in crisis for the entire country.

Turning first to the economic situation, Sakharov declared the country to be on "the brink of a financial catastrophe." He attributed the present state, with severe shortages of consumer goods and a proliferating black market, to a number of factors, including the climate into which Gorbachev had introduced his policy of *perestroika*, and certain deep-rooted and persistent illusions about society. Among other things Sakharov deplored the rigid social stratification of the country, which elevates the nomenklatura to the summit of society and relegates 40 million Soviet citizens to existence below the poverty line. He predicted that an economic collapse would occur in 1-5 years.

Sakharov spoke next about the catastrophic environmental and ecological situation in the Soviet Union, noting that some areas of the country were "already close to physical annihilation." He blamed this problem on the fact that each region is managed by departments which put their own interests ahead of those of the country as a whole, without the threat of fines or other penalties, and on the mismanagement of funds and other resources.

Sakharov went on to discuss the ethnic strife in the Soviet Union: "We used to say that our country was one of 'the friendship of all peoples,' but this illusion too has been swept away." He focused on the events in Uzbekistan which took place during the sessions of the Congress of People's Deputies, saying that they revealed the Soviet Union's status as the last colonial empire in the world. In particular, he asserted that the Uzbekistan tragedy was a result of the republic's being forced to cultivate cotton exclusively, the ramifications of which included hunger, illiteracy, pollution, and disease, among other things.

Sakharov reiterated that *perestroika* is not working, and cited as the root of the problems the structure of the political system, which he said cannot change because it does not want to change: "The Congress of People's Deputies rendered a clear guilty verdict against the system." But while the Congress has provided a crucial political lesson, it has failed to offer concrete measures for adoption, and Sakharov warned of the possibility of a military coup if no real progess is achieved. The state is "at a historical moment," he said, and the "perfect balance point" must be maintained to stave off worsening crisis.

Yelena Bonner took the stand as well, calling the miners'strike a positive phenonomen and an inevitable one, as nothing concrete had resulted from the Congress. Praising Gorbachev as an "intelligent, perspicacious" leader, she stated nonetheless that the Soviet Union needs assistance from the West, but worried over the timing of such assistance given the present situation "when we don't know where Gorbachev is going." If the West were to intervene today, the pressure on Gorbachev from below would be lessened, diminishing the urgency of moving forward with concrete reforms.

In response to questions from the audience, Sakharov and Bonner noted that the dominant atmosphere surrounding the Congress was one of hope, but that the most important follow-up to the exhilaration surrounding the Congress must be the "realistic application of the perestroika policy."

Fueling the Soviet Strikes: 'Where's the Borscht?'

By MARSHALL I. GOLDMAN

When Soviet miners began to walk out of the coal pits, they brought to a head the most serious challenge facing Mikhail S. Gorbachev—how to improve the life of the Soviet consumer. This is a paradoxical situation. Outside the Soviet Union, Gorbachev is applauded as the world's leading statesman. Within the country, however, he is criticized because of what most Soviet citizens see as the deterioration of their day-to-day standard of living.

Having just returned from Moscow, I can understand why the miners have been moved to take such extreme action. They, like their comrades all over the Soviet Union, find themselves facing shortages that never existed even in Leonid Brezhnev's "years of stagnation." Admittedly, the supply of consumer goods has always been erratic in the Soviet Union. But not since the late 1940s have there been so many shortages at once. Even Moscow, a city usually well supplied, now has had shortages in the last month that encompass not only meat, milk and butter, but cheese, sausage, sugar, tea, matches and even salt.

The consumer supply situation is no better outside the capital, and often quite worse. That is why the miners' demands include such unusual concerns as soap, laundry detergent and disposable syringes, as well as more and better apartments. Nor is this likely to be just a temporary crisis. Otto Latsis, a leading Soviet economist, has predicted that if the shortage of goods that began in 1988 continues for another year, "there will be empty shelves and trade will simply cease to exist."

Because they see no end to the deteriorating economic situation, the miners in the Kuznets Basin of Siberia decided to protest in the only way available to them. They were not the first to do so.

Already this year there have been more than 100 strikes throughout the Soviet Union.

This is one unintended consequence of *glasnost*. There were periodic strikes in the pre-Gorbachev days, but they were never publicized. Now the miners appear on television, and this gives ideas to others whose economic situation is no better. As a result, there are now more workers on strike in the Soviet Union than at any time since the revolution. This is hardly a comforting thought for Gorbachev or the conservatives around him who already fear that the society is beginning to unravel.

The tragedy, particularly in the coal industry, is that the strikes are bound to cause even more economic shortages. Coal accounts for 20% of the Soviet Union's energy supply. Already there are fears of more brownouts. Some metallurgical factories have already begun to cut back on production for fear they will not have enough coal to operate. Coal is also important for the operation of the already overburdened Soviet railroads. If some trains are canceled for a lack of fuel or electricity, the economic system may soon come to a halt.

To answer the miners' demands, Gorbachev will have to come up with more consumer goods. But since there are shortages all over the country, he will probably have to search for supplemental supplies outside the country. This will take convertible currency, which the Soviet Union lacks—so it will have to borrow. Even then, the imported goods may soon disappear into the black market. The problem is that the Soviet budget is unbalanced. The budget deficit exceeds 11% of the gross national product. The only way Gorbachev can pay the government's bills is to print money. No wonder that in 1988 the money supply increased twice as fast as it did in 1987. This extra money has fueled inflation, which now exceeds 10% a year.

These are not easy days for Gorbachev. He has been in power for more than four years now and the people are begining to ask, "Where's the borscht?"

It is not enough that he had to worry about cooling tempers between different nationality groups within the Soviet Union. So far, he has been unable to resolve any of these conflicts and if anything, the number of skirmishes seems to be increasing.

In the same way, the economic conflicts show no sign of diminishing. To end the strike Gorbachev has agreed to grant some concessions to some of the miners. But this is likely to lead to more strikes because other groups are likely to conclude that striking is the only way to improve their lot. This of course only causes more economic stress.

All this is too much for some, especially the conservatives. They attribute the strikes as well as the ethnic rioting to Gorbachev's permissive policies. They also blame him personally for the economic shortcomings of the *perestroika* process.

Gorbachev is not the only leader in history to be applauded overseas and criticized at home. However, if he is to continue in power, he will have to perform near-miracles at home. Unfortunately, the prospects are not very bright.

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